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AND STRATFORD, TREASURY FOR OASIA AND CUSHMAN

E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [HK](#) [CH](#) [ETRD](#)  
SUBJECT: RMB TRADE SETTLEMENT TAKES OFF IN HONG KONG

REF: A. HONG KONG 1104  
[1](#)B. HONG KONG 708  
[1](#)C. HONG KONG 559

[1](#)1. (SBU) Summary: Several Mainland companies have announced renminbi (RMB) trade settlement transactions with partners in Hong Kong in the wake of the July 6 People's Bank of China (PBOC) authorizing announcement. Hong Kong Monetary Authority (HKMA) Chief Executive Joseph Yam told the Consul General that HKMA has been lobbying for this for many years. HKMA will allow any Hong Kong bank with a correspondent relationship in the Mainland to conduct trade settlement in RMB. Senior HKMA staff attended launching ceremonies in Shenzhen, Shanghai and Guangzhou on July 6 and 7, but were unable to provide details either about Mainland enterprises approved to participate in this pilot program or about any transactions. Bank of China Hong Kong (BOC HK), Bank of Communications (BoCom), ICBC Asia and China Merchant Bank have reportedly completed one or more transactions, although for small amounts. A potentially large benefit for Hong Kong banks is their authorization to issue RMB trade finance, although at this time the terms are reportedly limited. HKMA officials say the PBOC is scrutinizing each transaction to avoid "over-invoicing" or other illicit trade-related transfer schemes. End summary.

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RMB Trade Settlement Quick Out of the Box  
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[1](#)2. (U) On the heels of the July 6 PBOC announcement authorizing RMB trade settlement transactions between selected Chinese entities and partners in Hong Kong, several companies were quick to put the new system to the test. BOC HK claimed it had booked seven RMB trade settlement transactions on July 6, including the first between Shanghai Electric Hong Kong Company, Ltd., and Shanghai Electric International Economic and Trading Company, Ltd., for an unspecified amount to settle the purchase of electrical equipment from the Shanghai-based company. BoCom claimed four transactions the first day, ICBC Asia one, and China Merchants Bank one. (Note: Although details on the transaction amounts remain unclear, the numbers appear to be relatively small: press reports suggest transactions thus far total between RMB 20-30 million (US\$ 3 to 4.5 million). End Note.)

[1](#)3. (SBU) The Chinese State Council first announced its intention to authorize limited RMB trade settlement in March [1](#)2009. HKMA External Head LI Cui said Chinese and Hong Kong enterprises have been expecting the announcement of the pilot program for some time and have, with their counterparts, been preparing to utilize the new system. The rapid pace of transactions over the first few days reflects their eagerness

and preparation, rather than pressure from Mainland authorities to conduct "show" transactions. HKMA has also been preparing for this for some time and already has the necessary infrastructure in place. Once PBOC gave their approval to begin the pilot, it was very easy to conduct these transactions, said Li.

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But the Details Remain Unclear  
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14. (SBU) HKMA officials confirmed that the Chinese authorities have a list of entities in Shanghai, Guangzhou, Shenzhen, Dongguan, and Zhuhai that are authorized to conduct RMB settlement transactions, but HKMA has not seen the list. External Department Head LI Cui recounted hearing Guangzhou officials at a July 7 launching ceremony state that 300 Guangdong companies had already been approved, but noted that this list is designed to guide mainland Chinese banks. She surmised that the authorized firms are the larger, more reputable trading companies and offered that the local governments are in charge of approving entities to participate in the pilot scheme. HKMA CE Joseph Yam told the Consul General in a separate conversation that the HKMA welcomes all RMB transactions and will not restrict Hong Kong companies interested in settling trade accounts in RMB.

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HKMA Encourages/Warns HK Banks  
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15. (SBU) HKMA met with Hong Kong banks just after the PBOC  
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announcement to remind banks that this is a pilot program, that the RMB remains an unconvertible currency and that they must continue to exercise appropriate prudential safeguards. They also reminded banks that the PBOC is concerned about "genuineness" and warned against conducting transactions that are not fully supported by actual trade. HKMA officials expect that even trade between subsidiaries will be subject to several layers of scrutiny to avoid transfer pricing.

16. (SBU) Li noted that Hong Kong banks authorization to extend RMB trade finance is an important benefit and will enhance Hong Kong's role as an international financial center. Banks can offer letters of credit for the full transaction, although LCs are limited to no more than 90 days. Banks are not subject to transaction limits but remain subject to HKMA oversight and capital requirements, including holding sufficient RMB reserves.

17. (SBU) The PBOC and HKMA signed a RMB 200 billion (US\$ 29 billion) swap agreement on January 20, 2009. Li confirmed that these RMB funds could be drawn on if local demand for RMB exceeded Hong Kong's current supply of just over RMB 50 billion (US\$ 7.35 billion). HKMA is still considering how to operationalize these funds, said Li, but plans should be in place in the near future. Given the small size of current transactions, there is no need to access the swap line at this time, but the HKMA will be ready when demand increases, she said.

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Potential Users Limited, but Will Grow  
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18. (SBU) When asked who would be most likely to use the RMB trade settlement mechanism, Li acknowledged that importers from Western countries would be unlikely to want to denominate their transactions in RMB, particularly if they believe RMB appreciation is imminent. But many Chinese importers will be eager to use this mechanism, especially commodity importers that have some pricing power. Entities seeking to facilitate intercompany transfers, such as the Shanghai Electric transaction, may also be interested to use

the new facility. While users currently need to conduct business through Hong Kong to access the RMB trade settlement scheme, planned expansion to ASEAN countries will likely lead to a surge of additional cross-border trade denominated in RMB, said Li.

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